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Leggett & Platt, Inc. (LEG)

Q1 2019 Earnings Call

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Analyst, SunTrust Robinson Humphrey, Inc.

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Leggett & Platt First Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Ms. Wendy Watson, Director of Investor Relations. Thank you, Ms. Watson. You may begin.

Wendy Watson
Director-Investor Relations, Leggett & Platt, Inc.

Good morning, and thank you for taking part in Leggett & Platt's first quarter conference call. I'm Wendy Watson, Director of Investor Relations. With me today are Karl Glassman, President and CEO; Matt Flanigan, EVP and CFO; Mitch Dolloff, EVP, Chief Operating Officer, and President of the Furniture Products and Specialized Products segments; Perry Davis, EVP and President of the Residential Products and Industrial Products segment; Susan McCoy; Senior Vice President of Investor Relations; and Cassie Branscum, Manager of IR.

The agenda for our call this morning is as follows. Karl Glassman will start with a summary of the major statements we made in yesterday's press release, Matt will discuss financial details and address our outlook for 2019 and finally, the group will answer any questions that you have.

This conference call is being recorded for Leggett & Platt and is copyrighted material. This call may not be transcribed, recorded or broadcast without our expressed permission. A replay is available from the IR portion of Leggett's website.

We posted to the Investor Relations portion of the website yesterday's press release and a set of PowerPoint slides that contain summary financial information along with segment details. Those documents supplement the information we discuss on this call, including non-GAAP reconciliations.

I need to remind you that remarks today concerning future expectations, events, objectives, strategies, trends or results constitute forward-looking statements. Actual results or events may differ materially due to a number of risks and uncertainties, and the company undertakes no obligation to update or revise these statements. For a summary of these risk factors and additional information, please refer to yesterday's press release and the section in our 10-K and 10-Q entitled Forward-Looking Statements.

I'll now turn the call over to Karl.

Karl G. Glassman

President, Chief Executive Officer & Director, Leggett & Platt, Inc.

Good morning, and thank you for participating in our first quarter call. As we reported yesterday, first quarter sales increased 12% to $1.16 billion. Growth from ECS and other smaller acquisitions of 13% was slightly offset by a 1% decline in organic sales. Volume was down 3%. Market share and content gains led to growth in U.S. Spring of 7%, but this was more than offset by our decision to exit the Fashion Bed business, softer demand in Automotive and volume we chose to exit in our Home Furniture business.

Raw material related selling price increases added 4% to organic sales but were partially offset by currency impact of 2%. First quarter earnings per share were $0.45. This included $6 million of restructuring-related charges and $1 million of ECS transaction costs that amount to a $0.04 per share reduction in earnings. Excluding these items, adjusted first quarter earnings were $0.49 per share, down $0.08 from $0.57 in the first quarter last year.

Earnings benefited from improved metal margins in our Steel Rod business and the ECS acquisition even after $14 million of purchase accounting charges. However, these increases were more than offset by declines in Automotive, Fashion Bed, Flooring Products, and Adjustable Bed as well as higher interest expense and a higher effective tax rate.

We remain excited about the ECS acquisition and the opportunities it brings. Demand for their proprietary specialty foams and downstream products is strong even while the U.S. bedding industry continues to be impacted by unfairly priced Chinese mattresses that are the subject of a pending anti-dumping matter. Since filing the dumping case with the U.S. International Trade Commission and Department of Commerce in September 2018, we have seen a notable increase in imported mattresses from China which has impacted ECS's sales growth. We expect a preliminary decision on the dumping allegations by the Department of Commerce in late May. If duties are imposed, we expect our bedding businesses along with the entire U.S. bedding industry to benefit.

As previously discussed, we conducted an in-depth analysis of our Home Furniture and Fashion Bed businesses and initiated restructuring activity in the fourth quarter of last year. We are exiting low margin business, reducing operating cost and eliminating excess capacity in Home Furniture. These activities should be substantially complete by the end of the second quarter.

In late March we announced the closure of Fashion Bed and expect to be out of that business by the end of the third quarter. We expect full year restructuring-related charges of $17 million, $12 million of which is non-cash. As a reminder from last quarter's conference call, the quarterly slide decks we post to the Investor Relations website, no longer contain unit growth rates of innerspring and boxspring pieces within our Residential Products segment. Because of content gains, including strong growth of our ComfortCore innersprings and other higher dollar value units, dollar growth and unit growth have become increasingly disconnected.

I will now turn the call over to Matt.

Matthew C. Flanigan

Chief Financial Officer, Executive Vice President & Director, Leggett & Platt, Inc.

Thank you, Karl, and good morning, everyone. Reflecting normal seasonality, cash from operations was $31 million in the first quarter, a decrease of $13 million versus in the first quarter last year, primarily due to increased working capital. A decrease in accounts payable due to the timing of payments and inventory purchases along with wind-down activity at restructured locations led to the increase in working capital investment.

We ended the quarter with adjusted working capital as a percentage of sales at 13.4%. That percentage should come back down as 2019 progresses. We continue to expect our full year operating cash flow to approximate $550 million.

In February, we declared a $0.38 per share quarterly dividend and extended our record of consecutive annual increases to 48 years. We fully expect to continue increasing the dividend as we repay debt associated with the ECS acquisition. At Friday's closing price of $42.01, our current yield is 3.6% which is one of the highest yields among the 57 companies that comprise the S&P 500 Dividend Aristocrats.

In keeping with our deleveraging plans, we've repurchased only 300,000 shares of our stock, at an average price of $42.38. These were primarily shares surrendered by employees for option exercises. We issued 1 million shares during the quarter, primarily for employee benefit plans and stock option exercises.

After completing the ECS acquisition in January, we ended the quarter with debt at 3.6 times our trailing 12-month pro forma adjusted EBITDA. We are committed to maintaining a strong investment-grade credit rating and expect to deleverage to a target ratio of debt to trailing 12-months EBITDA of approximately 2.5 times by the end of 2020. We will do this by temporarily limiting share purchases, reducing other acquisition spending, and using our operating cash flow to repay debt. In addition, we expect to bring back roughly $170 million of offshore cash in 2019.

We assess our overall performance by comparing our total shareholder return to that of peer companies on a rolling three-year basis. Our target is to achieve TSR in the top one-third of the S&P 500 over the long-term, which we believe will require an average TSR of 11% to 14% per year. We strongly believe our disciplined growth strategy, portfolio management and prudent use of capital will support achievement of this top-third goal over time.

Our guidance for 2019 is unchanged. Full year sales are expected to be $4.95 billion to $5.1 billion or up 16% to 19% over last year. ECS should add approximately $650 million to sales commencing from the January 16 acquisition date and we continue to expect annualized sales of approximately $675 million. In addition, organic sales growth is expected to be flat to up 3%, reflecting sales growth in Automotive, U.S. Spring, Aerospace, Hydraulic Cylinders, and Work Furniture largely offset by our exit from Fashion Bed and planned declines in Home Furniture.

Full year earnings per share are expected to be $2.35 to $2.55 cents, including approximately $0.10 per share of restructuring-related costs. Therefore, adjusted EPS is expected to be $2.45 to $2.65, reflecting slightly higher organic sales and moderating steel inflation partially offset by higher tax rate. The ECS acquisition is expected to be neutral to EPS this year.

EPS guidance assumes a full year effective tax rate of 24% versus 20% in 2018. This higher rate reflects the non-recurrence of valuation allowance releases we benefited from in 2018, a smaller expected stock compensation benefit in 2019, the impact of TCJA executive compensation limits, and tax implications from higher interest expense due to the financing of the ECS transaction.

We expect full year depreciation and amortization of $210 million, net interest expense of approximately $95 million and fully diluted shares of $136 million.

Based upon this guidance framework, our full year adjusted EBIT margin should be 10.8% to 11.2%. As previously mentioned, full year cash from operations should approximate $550 million, capital expenditure should be approximately $195 million for the year, and dividends should require $205 million of cash. Our dividend payout ratio for 2019 is anticipated to be above our target of approximately 50% of adjusted earnings.

Our long-term priorities for use of cash remain, one, organic growth involving capital expenditures and working capital investments; two, dividends; three, strategic acquisitions; and four, share repurchases. As previously stated, we are prioritizing debt repayment after organic growth and dividends and, as a result, are temporarily limiting share repurchases and reducing acquisition spending.

With those comments, I'll turn the call back over to Wendy.

Wendy Watson

Director-Investor Relations, Leggett & Platt, Inc.

That concludes our prepared remarks. We thank you for your attention and will be glad to answer your questions. In order to allow everyone an opportunity to participate, we request that you ask only one question and then yield to the next participant. If you have additional questions, you're welcome to re-enter the queue and we will answer those questions as well.

Michelle, we're ready to begin the Q&A session.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Peter Keith with Piper Jaffray. Please proceed with your question. Our next question comes from the line of Susan Maklari with Credit Suisse. Please proceed with your question.

Susan Maklari
Analyst, Credit Suisse Securities (USA) LLC
Q

Good morning, everybody.

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.
A

Good morning, Susan.

Wendy Watson
Director-Investor Relations, Leggett & Platt, Inc.
A

Good morning.

Susan Maklari
Analyst, Credit Suisse Securities (USA) LLC
Q

My first question is just now that you've actually closed ECS and had some time with it this quarter, can you just talk to, was there anything in there that has surprised you, how the integration is going? And it seems like things are on track in terms of the guidance that Matt talked to in the sales line, but just talk to us generally about how it's going and especially with the impact that it's seeing from imports maybe.

Perry Davis
Executive Vice President & President-Residential Products & Industrial Products, Leggett & Platt, Inc.
A

Susan, this is Perry Davis. I'll address that. I just sat in an integration meeting at the end of last week which we have on a regular cadence and I can tell you that the level of engagement between the Leggett folks and the ECS people is extremely good. We're tracking a lot of different work streams that range from sales and marketing all the way to IT integration and a lot of the back office functions. And it's going very smoothly. We have some great people working on that, tracking that, facilitating that and we're quite pleased. We sensed prior to the acquisition the cooperative spirit of those people at ECS and I'm happy to report that that our expectations there have been realized and they're working together quite well.

Susan Maklari
Analyst, Credit Suisse Securities (USA) LLC
Q

Okay.

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.
A

Yeah, and Susan, just going to add to that, from a business perspective, the surprise is that we knew at the time of the acquisition that we were starting to see some chemical deflation. So it's pressured selling prices a little bit, but certainly not profitability and margins are enhanced as a percentage. So, not a big surprise because TDI had increased significantly and now is coming back. So we're seeing deflation, but like I said, from a profitability standpoint, it's not at all negative.

The surprise probably has been the point that you started to make and that's the significant surge of dumped products in advance of the ruling that we expect will take place by statutory rules the end of May, so there's a 90-day look-back from a retro duty perspective. So we knew that product that had come into the country before the end of February was in effect duty free but the significant surge of imports, 71% in December, 63% in January, 56% in February has surprised us. So, it's dampened not only ECS's volume, certainly the whole U.S. industry's volume, so it's impacted the conventional players in the U.S. as well. We expect that we'll start to get some relief. The challenge is, there's a lot of inventory in this country. It's being peeled off but it will take a while to all sort through. So, we're certainly optimistic about the duties and the duty rates.

We are really pleased that we made the ECS acquisition. There is a lot of conversation. Perry's been involved with Chris Chrisafides, who runs ECS and the rest of the ECS team, and our historic Bedding group about new programs of onshoring and re-shoring. Part of U.S. Springs' growth has been the growth of hybrids in boxed and in conventional platforms. So things are going really, really well, but those were kind of the two surprises.

Susan Maklari
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay that's helpful, Karl. Thank you. And then just following up more broadly I guess, as we look across your end markets, you've talked to weakness in autos obviously globally, I know carpet underlay had some pressures this quarter. And I guess we've kind of heard that coming out of the fourth quarter, it seems like the year started off a little slow but then has kind of improved as we've moved through closer into the spring. Can you talk to what you've seen in bedding and housing markets and those kinds of things and how you're thinking about demand coming through as we look out?

Perry Davis
Executive Vice President & President-Residential Products & Industrial Products, Leggett & Platt, Inc.

A

So Susan, this is Perry again. And Bedding, I can tell you that as we progressed through the quarter, it got stronger and stronger. Relatively good sales promotion and activity around Presidents' Day. But again, the impact of the imports, it's hard to gauge because we perceive that there's so much of that in the system. But I can tell you, as the quarter went along, the cadence got quicker and more robust.

We actually saw in one of the other business units that's been affected that you mentioned, in our Flooring Products group, we did see some headwinds at the start of the year. Some of that obviously construction related and weather impacted but as we've gone along now and we've entered into the second quarter, we've seen our business volumes there recover and we're bullish on that business as we go forward now we're beginning to see some raw material relief there also.

Susan Maklari
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. All right. That's helpful. And what about just thinking in terms of some of your more industrial end markets? I know Hydraulics had a really good quarter but can you just talk to what you've been seeing on that side in general?

J. Mitchell Dolloff
Chief Operating Officer, Executive Vice President & President-Residential Products & Industrial Products, Leggett & Platt, Inc.

A

Sure, Susan, this is Mitch. Let me start with Auto. As you probably recall that the vehicle production forecast has declined consistently since the middle of last year. In fact, vehicles are down almost 2.8 million vehicles since the December forecast, with over 2 million of those units coming out of the first half of the year. So we're looking at a forecast for the market that shows continued softness in the first half of the year with production down year-over-year about 5%. And then the forecast improves in the back half of the year with production increasing year-over-year 3% to 4%. And pretty much that's reflective of the trends that we see as well. Remember that, so we're facing pretty tough comps with the first half of last year being pretty strong and then falling off in the back half. So we'll expect to see a reverse of that this year.

In PHC in the hydraulic cylinders market, yeah, last was very strong. I think unit growth in material handling was up nearly 15%. Q1 was actually a little bit softer, down about 3%. We don't have good industry forecasts there. So, unit pressure remains strong but we'll keep an eye out for that. Aerospace builds remain strong, so we are in good shape there as well.

Susan Maklari
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Great. Thank you very much.

Operator: Thank you. Our next question comes from the line of Peter Keith with Piper Jaffray. Please proceed with your question. Mr. Keith, is your line on mute?

Peter Jacob Keith
Analyst, Piper Jaffray & Co.

Q

I'm here. Sorry about that. I've had a fat finger on the mute button this morning. I did have a question just to follow up to Mitch. So, interesting on the auto forecast down 5% but then pretty sharp inflection in the back half of the year. I guess up 3% to 4% would seem to run above historical demand figures. That seems a little overly optimistic. I guess, what do you think on that forecast would be driving that sharp acceleration in the back half?

J. Mitchell Dolloff
Chief Operating Officer, Executive Vice President & President-Residential Products & Industrial Products, Leggett & Platt, Inc.

A

Well, I think you have a lot of uncertainty that have been negatively impacting the back half of last year and into the first half of this year, particularly the trade disputes impacting North America, China and the European Union I think are impacting consumer confidence. Certainly retaliatory tariffs in China have reduced demand for inputs there. The continued steel and aluminum tariffs are raising transaction prices and in the U.S., slowing sales and those are really coming through lower incentives that the consumer is having to absorb. And then we also had the WLTP emissions testing backlog last year and I think it's starting to work itself out but people expect we'll be in better position in the second half of the year.

And then I think finally, there's some expectation that there'll be tax incentives in China that will help boost demand in the second half of 2019.

So I think that part of year-over-year negative reflection in the first half is that it was really strong in 2018 and we see it softer in 2019, and you have the reversed scenario. So I don't think that the production rates that are forecast in the back half are unrealistic.

Peter Jacob Keith
Analyst, Piper Jaffray & Co.

Q

Okay. That's helpful. Thank you. And then I actually wanted to pivot the next question back to Karl around ECS. And I certainly agree with the acceleration of Chinese imports, but my impression was that the importers were trying to get ahead of potential duties so that they would have inventory in place to last potentially through Q2, not as a demand accelerant and we haven't seen much pricing change on import pricing, at least what we see online. So I guess part of the core of my question is why would the acceleration of imports be impacting overall demand trends as it relates to ECS?

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.

A

I think it's a continuation of the low-cost product being sold in the country and the surge that exists in that inventory. So it's the growth that really started in 2016 and the acceleration of that growth continues to pressure the entry price points in the U.S. which the first quarter is heavily sensitive to that seasonality. So there's a continuation of a loss of business to imports. So, Peter, I fundamentally agree with your point that it's just – it's an acceleration. The inventory is a bigger issue from a go-forward perspective that we expect will be melted off probably sometime by the end – middle the end of the third quarter as – it'll be interesting to see what the import statistics for March look like. But short answer, it's a continued pressure on the entry price points in the U.S.

Peter Jacob Keith
Analyst, Piper Jaffray & Co.

Q

Okay.

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.

A

And from our perspective and from an ECS perspective, there had been a lot of conversation and continues to be a lot of conversation of the domestic players moving to U.S. sourcing. Some of them are re-shoring, a good part of them are onshoring for the first time. And as that inventory continues to grow, the start of those ECS programs gets pushed out. So, there is a backward forecast at ECS that we think is appropriate. And there will also be an impact, a knock-on benefit to our conventional U.S. Spring business and, as I said in the prepared comments, to the U.S. bedding industry as a whole.

Peter Jacob Keith
Analyst, Piper Jaffray & Co.

Q

Okay. Thank you. And I do agree with that, the onshoring comments. Just lastly on that residential segment, so the margins continue to trend down. I thought by this point with ECS and stabilization in steel that the margins there would be flat to up. Could you give us a little color on that specific segment?

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.

A

Well, remember, ECS pressures EBIT margins in that segment. I wish we could report EBITDA margins, but that's the issue.

Peter Jacob Keith
Analyst, Piper Jaffray & Co.

Q

Okay. Fair enough. Thank you very much, guys. Appreciate it.

Operator: Thank you. Our next question comes from the line of Keith Hughes with SunTrust Robinson Humphrey. Please proceed with your question.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Yeah. My question is in the Furniture segment. How much of the businesses that you're exiting, how much of the 5% decline does that represent?

J. Mitchell Dolloff
Chief Operating Officer, Executive Vice President & President-Residential Products & Industrial Products, Leggett & Platt, Inc.

A

I think most of it if not – yeah, most of it for sure. But the significant declines in the Fashion Bed business, I think it was down something like 30% and home Furniture down 12%. There's a little bit of decline in Adjustable Bed as well, but the bulk of it is from Home Furniture and Fashion Bed.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

And I assume you're getting out of those because they're not very profitable. So, I was surprised that the EBIT was down so much on that decline. What's going on with that?

J. Mitchell Dolloff
Chief Operating Officer, Executive Vice President & President-Residential Products & Industrial Products, Leggett & Platt, Inc.

A

Well, I think that you have a couple of factors. You have some restructuring costs that are running through there. Particularly the Fashion Bed business is lower margin and so we're exiting that. We're not exiting the Home Furniture business. We've undertaken some significant restructuring activity really over the last several quarters there and that business has stabilized and actually performed pretty well. We still have some work to do but we saw margins improve there. So you had negative impact from Fashion Bad, also down a little bit in Adjustable Bed.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

And just finally on adjustables, can you talk about – I mean, it still seems to be all the rage in the mattress industry – why your business was down and what's the outlook?

J. Mitchell Dolloff
Chief Operating Officer, Executive Vice President & President-Residential Products & Industrial Products, Leggett & Platt, Inc.

A

Yeah, you're right, our growth definitely began to slow in Q4 in Adjustable Beds and that continued in Q1 with sales down 5%, some ups and downs for sure across the different customer base. Volume was negatively impacted there also by our decision to exit Fashion Bed. Fashion Bed had been a way to distribute to some smaller retailers adjustable beds, but it just wasn't economical for us to continue to do that given the decline in the other Fashion Bed product categories.

2018 was really volatile with really strong sales based on heavy promotional activity in the first half of the year and then a slower second half of the year. So this definitely presents challenging comps for us in 2019. I think we see – without that heavy promotional activity, we see 2019 volume probably down somewhere in the mid-single digits. So you're right that there continues to be growth in the industry at – stronger growth at really lower entry level price points. We tend to play in a little bit higher price points.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. Thank you.

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.

A

And Keith, at the risk of talking about specific customers, I feel like we need to be in only this business because, as you know, we're heavy-weighted to Mattress Firm and to Sleep Number in our Adjustable Bed sales. So Mitch is exactly right.

Remember, Mattress Firm was incredibly aggressive from a promotional perspective in the first half of last year. With fewer stores and a change of philosophy, we expect that that will be muted significantly. We're pleased with our Mattress Firm program. We think that the current program is healthier than the historic program. Sleep Number is doing just fine. So, I just don't like to talk about specific customers, but felt like we needed to here.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay.

J. Mitchell Dolloff
Chief Operating Officer, Executive Vice President & President-Residential Products & Industrial Products, Leggett & Platt, Inc.

A

Thanks, Karl. I would just add on to that too that in the second half of last year, we really struggled through some inventory overhang in adjustables. And I think by the end of Q1, we've largely worked through that. So, we think we'll see some improvement in the second half of the year in that as well.

Keith Hughes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

All right. Thanks.

Operator: Thank you. Our next question comes from the line of Bobby Griffin with Raymond James Financial. Please proceed with your question.

Bobby Griffin
Analyst, Raymond James & Associates, Inc.

Q

Good morning, everybody. Thank you for taking my questions.

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.

A

Good morning.

Matthew C. Flanigan
Chief Financial Officer, Executive Vice President & Director, Leggett & Platt, Inc.

A

Hi Bobby.

J. Mitchell Dolloff
Chief Operating Officer, Executive Vice President & President-Residential Products & Industrial Products, Leggett & Platt, Inc.

A

Good morning.

Bobby Griffin
Analyst, Raymond James & Associates, Inc.

Q

Karl, I just wanted to circle back on Susan's question from earlier and maybe could you just give a little bit more color of what you're either hearing from customers or seeing in some of your large business units throughout the quarter that gives you and the team the confidence around the full year sales guidance?

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.

A

Yeah, Bobby. This is going to take a little while, but I read your quick note. I'm going to give you and everyone listening kind of a quick view of each business unit. So we'll go business unit by business unit organized by segment.

U.S. Spring, we saw 7% growth. We expect that to continue. Certainly the bedding industry was impacted in January and February, to Perry's comments, by weather. But there is an acceleration of our content gains, market share pick up, hybrids are a contributor to that. We expect dumping benefit in the – in certainly in the back half in U.S. Spring. So everything is really going well in U.S. Spring.

I made the comments on ECS. We expect their back half business to significantly improve. International Spring performed well in the first quarter, we expect that to continue. There's a story by geography. Perry made a comment on Flooring significantly negatively impacted in January, February. I think that's highly correlated to weather. Saw it gain in March. We expect kind of flat for the whole year there.

Fabric Converting highly correlated to Bedding and Furniture. For the full year, we expect flat. GEO, because of acquisitions, we expect 20% growth in that business. And Machinery is relatively small. It will be flat to slightly down because of softness in the U.S. bedding industry.

Industrial, you saw a negative in the first quarter that was caused by our closure of a formed wire business. The anniversary is actually next week. So it cost in the first quarter about $10 million of volume. So that negative will not repeat in the remainder of the year.

Echoing some of Mitch's comments, Work Furniture, we expect mid-single digit growth through the year. Home Furniture should be flat with units down, dollars up because of the benefit of pricing actions that were taken in the back half of last year. Mitch spoke to the impact of FBG closure and Adjustable Beds. Auto for the year should be up mid to high single digits. Aerospace and Hydraulic Cylinders both up in about 10% range.

So, we feel really good about our guidance. I will admit that the sales guidance is probably more questionable than the EPS guidance but as we sit here end of April, we feel pretty good – we feel really good about our guidance.

Bobby Griffin
Analyst, Raymond James & Associates, Inc.

Q

All right. I really appreciate all that detail. That was a lot and very helpful, so thank you. And then I guess also, Mitch, on the comments about the decision to exit some of the Fashion Bed business and Furniture Products business, was that – if I take the math and I do the math on that, was that basically a 1% drag to consolidated volumes as well, your own decisions to exit those businesses?

J. Mitchell Dolloff
Chief Operating Officer, Executive Vice President & President-Residential Products & Industrial Products, Leggett & Platt, Inc.
A

Bobby, we're thinking about the math here for a second.

Susan R. McCoy
Senior Vice President-Investor Relations, Leggett & Platt, Inc.
A

Probably a little bit more than that, Bobby. On an annualized basis, it's not a huge hit to the sales line.

Bobby Griffin
Analyst, Raymond James & Associates, Inc.
Q

Okay. Okay. That's helpful.

J. Mitchell Dolloff
Chief Operating Officer, Executive Vice President & President-Residential Products & Industrial Products, Leggett & Platt, Inc.
A

Yeah. Sorry, it's a little bit tough to predict. As we decided to exit Fashion Bed, we're really in a mode of liquidating that inventory. So we're out of a normal kind of selling cycle. That's going really well, we're having a lot of success with that, but we just started thinking about that...

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.
A

Yeah. And remember, Fashion Bed was shrinking as the year progressed last year too.

J. Mitchell Dolloff
Chief Operating Officer, Executive Vice President & President-Residential Products & Industrial Products, Leggett & Platt, Inc.
A

This year, yeah.

Susan R. McCoy
Senior Vice President-Investor Relations, Leggett & Platt, Inc.
A

Yeah. $40 million to $50 million is what 1% looks like and maybe a little bit more than that, but not a lot.

J. Mitchell Dolloff
Chief Operating Officer, Executive Vice President & President-Residential Products & Industrial Products, Leggett & Platt, Inc.
A

Yeah.

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.
A

Yeah.

Bobby Griffin
Analyst, Raymond James & Associates, Inc.
Q

Okay. And Susan, I didn't hear you at the end. It's a little stronger in 2Q, is that what you were saying? I couldn't – the phone broke up a little bit, I'm sorry.

Susan R. McCoy
Senior Vice President-Investor Relations, Leggett & Platt, Inc.

A

No, I said $40 million to $50 million is what a 1% decline looks like in the downdraft because of our exit of much of that volume. It's probably a little bit larger number than that, but not a lot.

Bobby Griffin
Analyst, Raymond James & Associates, Inc.

Q

Okay. Okay. And then should I expect something similar in 2Q then and then we start to anniversary and it's starting to lessen throughout the back half?

Susan R. McCoy
Senior Vice President-Investor Relations, Leggett & Platt, Inc.

A

Well, Bobby, to be clear, the $40 million to $50 million is an annual number, not a quarter number. And second quarter, Mitch?

J. Mitchell Dolloff
Chief Operating Officer, Executive Vice President & President-Residential Products & Industrial Products, Leggett & Platt, Inc.

A

Yeah, I think it goes the other way, at least in regards to Fashion Bed, Bobby. So in 2018 trade sales in Fashion Bed were something like $170 million. As we ramp it down, I think they were a little over $30 million in the first quarter. I expect they're probably closer to $20 million in the second and third quarter, spread across there. And then probably very little if anything by the fourth quarter.

Susan R. McCoy
Senior Vice President-Investor Relations, Leggett & Platt, Inc.

A

Yeah, and there's your 1%, a little more.

Bobby Griffin
Analyst, Raymond James & Associates, Inc.

Q

Okay. I appreciate the detail. And then I guess lastly also is when we model in ECS, does that business follow the kind of typical seasonality of the Bedding business that we're used to with the holidays causing spike and 3Q being a big quarter?

Perry Davis
Executive Vice President & President-Residential Products & Industrial Products, Leggett & Platt, Inc.

A

It's a little bit different, Bobby. We would expect that fourth quarter volume would be a little more skewed to the busier season. And the reason for that is the amount of product that's moved on good on Black Friday and Cyber Monday, that is a tremendous injection of volume that happens around that timeframe. We also see some product towards the end of the year in December and Christmas and things like that. So it's a little bit more skewed.

Now that part of the business that's related to box beds and that type product, that probably would follow a little more seasonal seasonality that's traditional. But remember, it's not all that; it's things like toppers and pillows and other products that lend themselves more to promotional activity around those yearend events.

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.

A

Yeah, Perry makes a good point. It's more e-commerce sensitive so has more of an e-commerce cycle than a traditional brick-and-mortar cycle.

Bobby Griffin
Analyst, Raymond James & Associates, Inc.

Q

Okay. I appreciate the detail. Thanks for answering my questions again and best of luck going forward.

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.

A

Thank you, Bobby.

Operator: Thank you. [Operator Instructions] Our next question comes from the line of Dan Moore with CJS Securities. Please proceed with your question.

Stefanos Crist
Analyst, CJS Securities, Inc.

Q

This is Stefanos Crist calling for Dan Moore. My apologies if you've addressed this in prior calls, but given the new mix with ECS, can you walk us through your COGS on a consolidated basis of what percent is raw materials versus labor?

Susan R. McCoy
Senior Vice President-Investor Relations, Leggett & Platt, Inc.

A

Stefan, this is Susan. And we don't have that updated from our historical presentation. I don't know what's the revised split is. It's...

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.

A

Yeah. Yeah, we're going to need a little bit more time...

Susan R. McCoy
Senior Vice President-Investor Relations, Leggett & Platt, Inc.

A

Yeah.

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.

A

Remember, we've only owned it less than a quarter. But, yeah, let us – it's a good question and we need to update that schedule. Obviously, there is a chemical element that is a – while chemical input costs have always been an issue to our Flooring Products business, it's significantly larger now with ECS. So, yeah, good question.

Susan R. McCoy
Senior Vice President-Investor Relations, Leggett & Platt, Inc.

A

And we are actually in the process of doing that update. We just don't have it done yet. It will be soon.

Stefanos Crist
Analyst, CJS Securities, Inc.

Q

Okay. Thank you. I'll jump back in the queue.

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.

A

Thank you.

Operator: Thank you. Our next question comes from the line of John Baugh with Stifel. Please proceed with your question.

John Allen Baugh
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Good morning, and thanks for taking my questions. I was wondering on content gains that you reference in Bedding, is there any way to quantify what you're seeing year-over-year in Q1 and maybe what you expect to see for the entire year 2019?

Perry Davis
Executive Vice President & President-Residential Products & Industrial Products, Leggett & Platt, Inc.

A

John, this Perry. First quarter – we used to talk about, I was – I thought that ComfortCore as a percent of the units that we sold likely would top out somewhere in the mid-40s as a percentage range. Well, in the first quarter of this year, ComfortCore was actually at 50% of the units sold, is up about 24% if you look year-on-year. And then, the other layer on content gains is not only the shift from open coil to ComfortCore, but the Quantum Edge part of the story. And that was 43% of all the ComfortCore that we shipped in Q1 had a Quantum Edge element to it.

So what do we attribute that to? I think it's a variety of things but there's clearly a preference in the mid line to premium categories of ComfortCore and also on the box bed category. We're seeing continued penetration and expect that to go even further in the future.

Quantum Edge is so prevalent and becoming so prevalent in box beds because the product itself is so good, it just makes sense. Our customers see the benefits of that product and that it opens up and it has from the start, from the opening process, an enhanced edge. Prior to that, most of the foam products and a lot of the innerspring products had no support on the edge. This product does, it's got integrity and it stays through the life of the mattress. So we're excited about that. And again, all those products as they get sold through, that's additional volume for us and it's additional opportunities for margin and it makes a great product.

John Allen Baugh
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. And then I assume we're anxiously awaiting this March China import data, number one, and we're awaiting to get a final duty number, number two. And I assume you have better guesses at where those may come in than I do. Is there any way to quantify in your guidance, once all the inventory, excess inventory that's been built ahead of these duties, what kind of an impact favorably you're expecting in your Bedding business? Is there anything in, say, the back half or – I think you mentioned the middle of Q3, we might see all the inventory worked back, what you expect the benefit may be?

Perry Davis
Executive Vice President & President-Residential Products & Industrial Products, Leggett & Platt, Inc.

A

It's hard to say, John. I can tell you this. If you think there's 7 million, 8 million mattresses run rate that was coming from China, some of that goes elsewhere around the world obviously, we think a lot of it gets repatriated to the U.S. and we're seeing our quote process, both amongst traditional customers and the box bed part of the business, would indicate that there's a lot of that going to re-shore and it's a tremendous opportunity for us and for the industry. And that's the reason for the filing.

If you look at the schedule as we know it today, around the end of May, Commerce will make a preliminary determination of duties. If those are favorable, there's also amongst the petitioners been a filing to have some retroactive element applied to those duties and that would be a 90-day look-back if it's approved. We don't know for sure that it will be, but it has – we believe will put a cooling effect on all of that importation. We think it already has. And if you look at a 90-day look-back from the end of May, that's the end of February. So it will be interesting to see what the March numbers look like when we finally see those but we expect the level of importation to certainly decelerate, and to the degree of how quickly that happens, I don't know. But I think that the word is out. I think from all indications, we would look for a positive finding at the end of May and that begins to flow through. Will there be a glut of products still sitting out there all through the second quarter? Don't know. Could be. It's just hard to know where those sit.

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.

A

John, the other element to that is, as you know, most of the imported product today is foam. And as we have conversation with our customers, as they talk about new product lines, don't – no longer have an expectation that they'll compete against a $200 queen, that there is a lot of conversation about hybrid, and it goes to the conversation that Perry had a minute ago of ComfortCore and Quantum Edge. So at both the ECS level and the historic Leggett level – and again, hard to quantify, but there's an expectation that whatever percentage of those 8 million-ish units come back, a higher percentage of them will be hybrid than are currently foam today.

So we're excited mostly because of conversation with customers. You would note that Casper launched on their website a hybrid effective two weeks ago. So that's new. They and other customers are talking about hybrids where it historically had been foam. So, the combination of our ComfortCore and the exclusive materials from ECS are really, really powerful.

John Allen Baugh
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. And secondly, just I guess a question of clarification. Given your commentary about China of imports being, say, higher than you even thought and that being mostly foam product and impacting ECS, you are or not changing at all your post-January forecast for revenue growth for ECS for the year?

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.

A

We are not. We're optimistic, but we don't have enough data.

John Allen Baugh
Analyst, Stifel, Nicolaus & Co., Inc.

Q

And why would that not be the case if the imports in January and February, I presume, and/or December were a lot higher than you thought?

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.

A

It wasn't in our original guidance. The benefit of the surge wasn't in our original guidance.

Perry Davis
Executive Vice President & President-Residential Products & Industrial Products, Leggett & Platt, Inc.

A

I would say too, Karl, if you look back, this whole process on dumping has been delayed out about 40 days because of the government shutdown, and we would not have known at that time the timing, how that would affect the timing of this.

John Allen Baugh
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. Thank you. Good luck.

Karl G. Glassman
President, Chief Executive Officer & Director, Leggett & Platt, Inc.

A

Yeah. Thanks, John.

Operator: Thank you. There are no further questions at this time. I would like to turn the call back over to Ms. Watson for any closing remarks.

Wendy Watson
Director-Investor Relations, Leggett & Platt, Inc.

Thank you, everyone, and we look forward to talking to you again next quarter.

Operator: Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.